

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its November 2004 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007 and 3.1% in 2008;
- U.S. nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, and 0.8% in both 2007 and 2008;
- the U.S. civilian unemployment rate rises slightly over time;
- consumer inflation is 2.7% in 2004, 2.2% in 2005, 1.3% in 2006, and 1.7% in 2007, and 1.9% in 2008; and
- the federal unified budget deficit peaks at \$413 billion in 2004 then gradually declines to \$288 billion in 2008.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. A few key assumptions distinguish the *Optimistic Scenario* from the baseline. In this *Scenario*, total factor productivity is higher than in the baseline. This helps the economy expand faster without rekindling inflation. Job growth is also stronger, while budget deficits are much smaller. This *Scenario* assumes stronger foreign growth boosts exports despite a stronger dollar. In addition to these key assumptions, oil prices are lower and construction is stronger.

These assumptions produce a rosier outlook than in the baseline. Although economic growth and job gains are stronger, inflation is actually lower than in the baseline thanks to the strong dollar and higher productivity gains. The lower inflation rate allows the Federal Reserve to be more accommodating than in the baseline. Real GDP rises 4.4% in 2004, 3.6% in 2005, 3.7% in 2006, 3.7% in 2007, and 3.5% in 2008. In the baseline, real GDP grows 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007, and 3.1% in 2008. In the *Optimistic Scenario*, nonfarm employment advances 1.1% in 2004, 1.9% in 2005, 1.5% in 2006, 1.1% in 2007, and 1.0% in 2008. The labor market's strength is also evident in the civilian unemployment rate, which declines from 5.5% to 5.2% over the forecast horizon. In contrast, the unemployment rate gradually increases over the forecast period in the baseline case. Nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, 0.8% in 2007, and 0.8% in 2008.

The higher U.S. productivity presents a mixed outlook for Idaho. Specifically, total nonfarm employment advances slightly faster than in the baseline this year and next, but grows slower than the baseline in 2007 and 2008. The cumulative result is Idaho nonfarm employment in the *Optimistic Scenario* is slightly lower. But this is not the case for all Idaho employment sectors. As the table shows, Idaho goods-producing employment actually remains stable in the *Optimistic Scenario*. It declines steadily in the *Baseline Scenario*. The nongoods-producing sector is not as well off. Its employment does grow over the forecast period, but it lags its baseline counterpart. The largest differences between the *Optimistic* and *Baseline* scenarios lie with Idaho personal income. Both nominal and real personal incomes grow slower over the forecast period than in the baseline. This occurs because the higher productivity dampens unit labor cost, which lowers Idaho wage growth. The lower wage growth has a cascading effect on several components of Idaho personal income.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2005

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
GDP (BILLIONS)												
Current \$	12,352	12,948	13,584	14,275	12,371	12,998	13,667	14,382	12,326	12,900	13,605	14,380
% Ch	5.3%	4.8%	4.9%	5.1%	5.5%	5.1%	5.1%	5.2%	5.1%	4.7%	5.5%	5.7%
2000 Chain-Weighted	11,187	11,524	11,884	12,254	11,231	11,646	12,074	12,499	11,146	11,378	11,679	11,975
% Ch	3.2%	3.0%	3.1%	3.1%	3.6%	3.7%	3.7%	3.5%	2.9%	2.1%	2.6%	2.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	38,919	41,042	43,139	45,459	38,718	40,438	42,089	43,942	39,110	41,656	44,470	47,660
% Ch	5.1%	5.5%	5.1%	5.4%	4.6%	4.4%	4.1%	4.4%	5.6%	6.5%	6.8%	7.2%
U.S. (Billions)	10,109	10,657	11,209	11,826	10,111	10,665	11,222	11,832	10,112	10,670	11,317	12,045
% Ch	4.9%	5.4%	5.2%	5.5%	4.9%	5.5%	5.2%	5.4%	4.9%	5.5%	6.1%	6.4%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	35,430	36,788	37,947	39,165	35,409	36,566	37,467	38,417	35,442	36,716	38,120	39,644
% Ch	3.2%	3.8%	3.2%	3.2%	3.1%	3.3%	2.5%	2.5%	3.2%	3.6%	3.8%	4.0%
U.S. (Billions)	9,203	9,552	9,860	10,189	9,247	9,644	9,990	10,344	9,164	9,404	9,701	10,019
% Ch	2.9%	3.8%	3.2%	3.3%	3.4%	4.3%	3.6%	3.5%	2.5%	2.6%	3.2%	3.3%
TOTAL NONFARM EMPLOYMENT												
Idaho	596,683	607,474	618,150	628,093	597,075	608,017	618,303	627,838	596,706	605,189	614,577	625,003
% Ch	1.6%	1.8%	1.8%	1.6%	1.7%	1.8%	1.7%	1.5%	1.6%	1.4%	1.6%	1.7%
U.S. (Thousands)	133,501	135,058	136,200	137,296	133,866	135,863	137,408	138,721	133,339	134,279	135,094	136,118
% Ch	1.7%	1.2%	0.8%	0.8%	1.9%	1.5%	1.1%	1.0%	1.6%	0.7%	0.6%	0.8%
GOODS-PRODUCING SECTOR												
Idaho	104,605	103,636	102,899	102,175	104,997	104,969	104,926	104,912	104,729	102,949	101,432	100,080
% Ch	-0.1%	-0.9%	-0.7%	-0.7%	0.3%	0.0%	0.0%	0.0%	0.0%	-1.7%	-1.5%	-1.3%
U.S. (Thousands)	22,135	22,174	22,120	22,106	22,180	22,405	22,490	22,509	22,126	21,972	21,661	21,459
% Ch	1.2%	0.2%	-0.2%	-0.1%	1.4%	1.0%	0.4%	0.1%	1.1%	-0.7%	-1.4%	-0.9%
NONGOODS-PRODUCING SECTOR												
Idaho	492,079	503,837	515,252	525,918	492,078	503,047	513,377	522,926	491,977	502,240	513,145	524,923
% Ch	2.0%	2.4%	2.3%	2.1%	2.0%	2.2%	2.1%	1.9%	2.0%	2.1%	2.2%	2.3%
U.S. (Thousands)	111,366	112,884	114,080	115,190	111,686	113,458	114,918	116,212	111,213	112,307	113,433	114,659
% Ch	1.8%	1.4%	1.1%	1.0%	2.0%	1.6%	1.3%	1.1%	1.6%	1.0%	1.0%	1.1%
SELECTED INTEREST RATES												
Federal Funds	2.6%	3.4%	3.5%	3.9%	2.4%	3.1%	3.3%	3.4%	3.4%	5.3%	7.1%	7.4%
Bank Prime	5.6%	6.4%	6.5%	6.9%	5.4%	6.1%	6.3%	6.4%	6.4%	8.3%	10.1%	10.4%
Existing Home Mortgage	6.2%	6.6%	6.8%	7.3%	5.9%	6.2%	6.3%	6.6%	6.6%	8.0%	9.1%	9.4%
INFLATION												
GDP Price Deflator	2.0%	1.8%	1.7%	1.9%	1.7%	1.3%	1.4%	1.7%	2.1%	2.5%	2.7%	3.1%
Personal Cons Deflator	1.9%	1.6%	1.9%	2.1%	1.7%	1.3%	1.4%	1.7%	2.4%	2.8%	2.8%	3.1%
Consumer Price Index	2.2%	1.3%	1.7%	1.9%	1.7%	0.9%	1.4%	1.6%	2.6%	2.5%	2.5%	2.8%

Forecast Begins the **THIRD** Quarter of 2004

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned 20% probability of occurrence. A significant feature of the *Pessimistic Scenario* is the re-emergence of inflation. The pickup of inflation reflects higher oil prices, a weaker dollar, two-and-one half years of accommodative monetary policy, and loose fiscal policy. In addition, higher prices are fueled by the ability of businesses to pass more of their costs to their customers. Two other factors cause prices to rise faster than in the baseline. There may actually be less spare manufacturing capacity than is currently believed, since rapid technological advances may have rendered obsolete much of the idle capacity the Federal Reserve has been including in its estimates of capacity. Global growth is hampered by the anti-growth regulatory and social policies in Europe. Consumer prices rise 2.7% in 2004, 2.6% in 2005, 2.5% in 2006, 2.5% in 2007, and 2.8% in 2008. The Federal Reserve responds to the higher inflation by quickening the pace of its tightening. By the end of 2005, the federal funds rate is at 4.5%. The federal funds rate eventually peaks at 7.5%. Between the higher interest rates and persistently high-energy prices, consumer confidence retreats and consumers rein in their discretionary spending.

The economy does not sink into a recession in this scenario, but merely fails to come as close to its potential. Real GDP is one-half percentage point lower in 2005 and 2006 than its baseline counterparts. As mentioned, inflation is higher, despite the weaker aggregate economy. Nonfarm employment grows slower than in the baseline. As a result, the unemployment rate climbs from about 5.5% in 2005 to over 6.0% in middle of 2006, where it remains until the second half of 2008.

In this *Scenario*, the outlook for Idaho employment is lower than in the *Baseline Scenario*, but the personal income forecast is stronger. Specifically, Idaho nonfarm employment advances 1.6% in 2005, 1.4% in 2006, 1.6% in 2007, and 1.7% in 2008. In this *Scenario*, Idaho goods-producing employment shrinks nearly twice as fast as in the baseline. As a result, there are about 2,100 fewer goods-producing jobs in this scenario compared to the baseline. This being the case, the nongoods-producing sector is the engine for job growth. However, it advances slower than it does in the baseline. Interestingly, Idaho nominal personal income increases faster than its baseline counterpart, due in large part to the higher predicted inflation.